

Newsletter

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Bi-monthly Newsletter of Hanul Choongjung LLC



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This newsletter is prepared and issued by Hanul Choongjung LLC on a bi-monthly basis and intended to provide foreign investors with an update on tax law changes in Korea and other related subjects of special interests to foreign investors. The information provided herein should not form a basis of any decision as to a particular course of action, nor should it be relied upon as a substitute for a detailed advice in individual cases.

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■ Revised Presidential Decrees of Tax Laws

On February 13, 2018, the Korean government promulgated amendments to the Presidential Decrees of the Corporate Income Tax Law and the Individual Income Tax Law. The major changes are summarized as follows.

● Postponement of Expansion of Capital Gain Taxation on Non-residents and Foreign(Non-Korean) Corporations for the Transfer of Listed Stocks

In order to enhance taxation on Korean source income derived by non-residents and foreign corporations, the government previously proposed amendments to the Presidential Decrees which included expansion of capital gain taxation on non-residents and foreign corporations for the transfer of listed stocks. However, the government decided to postpone the revision and review the proposed changes again later as part of tax reform proposals for 2018.

Current	Initially Proposed	Revised
<input type="checkbox"/> Scope of capital gain taxation on non-residents and foreign corporations <input type="radio"/> Unlisted stocks : taxable <input type="radio"/> Listed stocks - traded OTC : taxable - traded in the securities market : taxable if traded by majority shareholders * scope of majority shareholders : shareholders who own at least 25% of the outstanding shares of the corporation	<input type="checkbox"/> Scope expansion of capital gain taxation on non-residents and foreign corporations <input type="radio"/> Unlisted stocks : taxable <input type="radio"/> Listed stocks - traded OTC : taxable - traded in the securities market : taxable if traded by majority shareholders * scope of majority shareholders : shareholders who own at least 5% of the outstanding shares of the corporation	The government decided to postpone the revision. The government will review the revision with the improvement of the withholding tax system.

■ Revised Enforcement Rules of Tax Laws

The major changes to the enforcement rules of the Basic National Tax Law, the Individual Income Tax Law and the Special Tax Treatment Control Law are as follows.

● Change in the rate used to calculate interest on tax refunds, deemed rental income for rental security deposits, amounts due on collection of over-refunded customs duty, etc.

Current	Revised
1.6%	Increased to 1.8% , considering the interest rate of time deposits recently offered by banks.

The new rate shall be effective for the period on or after March 21, 2018. As for the deemed rental income, the new rate shall be effective from the fiscal year beginning on or after January 1, 2018.

● **Addition to the scope of non-taxable income**

No income tax shall be levied on allowances received by workers listed in below table for overtime work, night-shift work, or holiday work.

Classification	Korean standard classification of occupations
Cleaning and Guard Related Elementary Occupations	- Cleaning and Guard Related Elementary Occupations (94)
Cooking and Food Service Occupations	- Cooks (441) - Food and Beverage Service Workers (442)
Store Sales Occupations	- Store Sales Workers (521) - Mobile Telecommunication Device and Service Salespersons (5311) - Online Salespersons(5312)
Elementary Workers	- Food Preparation Related Elementary Workers (952) - Sales Related Elementary Workers (953) - Agriculture, Forestry and Fishery Related Elementary Workers (991) - Gauge Reading, Money Collecting and Parking Control Related Workers (992) - Other Service Related Elementary Workers (999)

The new rule shall be effective from the fiscal year beginning on or after January 1, 2018.

● **Addition to the scope of new growth engine service businesses**

Under the Special Tax Treatment Control Law, certain small or medium start-up enterprises engaging in new growth engine service businesses can claim tax exemption at 50% ~ 75% of corporate income taxes for 3 years. In this regard, the following businesses have been added to the scope of new growth engine service businesses.

Classification	New growth engine service businesses
Contents	① Advertising agency, outdoor and exhibition advertising ② Market research and public opinion polling
Tourism	① Exhibition organization under the Exhibition Industry Development Act
Scientific and technical activities	① Technical testing and analysis ② Surface and geological survey, cartographic activities

This amended rule shall be implemented from the fiscal year beginning on or after January 1, 2018.

● **Increase in the threshold rate for the tax credit for earned income increase of SMEs**

Under the Special Tax Treatment Control Law, small and mid-sized enterprises (“SMEs”) are entitled to tax credit until the taxable year in which December 31, 2020 falls if its rate of increase in average wages of its full-time employees is greater than the average increase rate of all SMEs. The tax credit allowed is 20% of the portion of wage increased. Under the revised Enforcement Rules, the current average increase rate of all SMEs (“threshold”) of 3.3% is increased to 3.6% as below.

Current	Revised
The rate of increase in the average wages of full-time employees should be greater than 3.3% (the increase rate of the average wages of all small or medium enterprises)	The threshold rate increased to 3.6% , considering the recent 3-year average increase rate of wages of all SMEs.

The new rule shall be effective from the fiscal year beginning on or after January 1, 2018.

■ **Recent Tax Ruling**

● **The Creditability of Vietnamese Foreign Contractor Tax (Gijaebu gukjejosedogua-152 2018.02.06.)**

In case where a Vietnamese permanent establishment (PE) of a Korean company derives foreign-source income attributable to the PE, a foreign tax credit should apply to the foreign contractor tax which is withheld from income attributable to the PE at certain rates under the Vietnamese Tax Law in accordance with Article 23, Paragraph 1 of the Korea-Vietnam income tax treaty and Article 57, Paragraph 1 of the Corporate Income Tax Law of Korea.

The government reversed its past interpretation that the Vietnamese foreign contractor tax did not qualify for a foreign tax credit (Gijaebu gukjejosedogua -112, 2016.3.4)

Therefore, it seems that companies that did not apply foreign tax credit for the Vietnamese foreign contractor tax withheld from the revenue of Vietnamese PE according to the past interpretation can seek the tax refund through filing amended tax returns.

■ **Tax tips**

● **2017 Individual Income Tax Return Filing Requirement (due May 31, 2018)**

Residents, regardless of their nationalities, are subject to Korean income tax based on worldwide income including global income (employment income, business profits, dividend, pension, interest, rental, and other income), severance pay and capital gains. However, under the revised Individual Income Tax Law, in the case where the period that a foreigner, who is a tax resident of Korea, has his address or abode in Korea does not exceed 5 years in aggregate during the past 10 years from the end of the concerned tax year, his/her foreign source income earned from January 1, 2009 shall be taxed in Korea only if such income is paid in Korea or such income is remitted into Korea.

Taxpayers making monthly tax payments and having only one source of worldwide income (i.e., either Class A or Class B) are generally not required to file a global income tax return since the employer (for Class A income earners) or the Class B taxpayers' association (for Class B income earners) finalizes the individual's tax liability at the end of the year. Taxpayers having more than one source of income, however, are required to file a global income tax return for the year and pay taxes due on such income on or before May 31 of the following year, or prior to permanently leaving Korea.

The filing of 2017 annual individual income tax return is coming due on May 31, 2018 together with necessary tax payments.

● **A new “Quick Tax Table” for 2018 was announced to be effective from Feb 13, 2018**

Employees are being withheld income tax and local income tax on their salaries each month based on the “Quick Tax Table” of the National Tax Service (NTS), which can be considered as estimated tax payments during the year.

The NTS announced the new “Quick Tax Table” for 2018, which became effective from Feb 13, 2018. The monthly income tax and local income tax withholding amount has changed starting with the March 2018 payroll accordingly.

■ **Social Insurance Changes in 2018**

● **Increase in Premium Rates for the National Health Insurance and the Long-Term Care Insurance**

Effective from January 1, 2018, the premium rate of the National Health Insurance has been increased from 6.12% to 6.24% of monthly salary income (excluding non-taxable income). Each employer and employee portion rises from 3.06% to 3.12%, respectively. Meanwhile, the premium of the Long-Term Care Insurance (surcharge of the national health insurance) has been increased from 6.55% to 7.38% of the National Health Insurance premiums.

For example, if an employee's monthly average taxable salary is KRW 5,600,000, the employee portion of the National Health Insurance and the Long-Term Care Insurance premiums are calculated as follows:

	2017 (KRW)	2018(KRW)
National Health Insurance	$5,600,000 * 3.06\% = 171,360$	$5,600,000 * \underline{3.12\%} = 174,720$
Long-Term Care Insurance	$171,360 * 6.55\% = 11,220$	$174,720 * \underline{7.38\%} = 12,890$

● **Increase in Minimum and Maximum Monthly Contribution to Korean National Pension (According to Article 5 of the Presidential Decrees of the Korean National Pension Act)**

Effective from July 1, 2018, the minimum and maximum monthly contribution of the Korean national pension (NP) will be increased as follows.

	Before	From July 1, 2018
Minimum average salary threshold	KRW 290,000	KRW 300,000
Maximum average salary threshold	KRW 4,490,000	KRW 4,680,000

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Example:

	Before	From July 1, 2018
Minimum monthly NP contribution	290,000* 4.5% = 13,050	300,000 * 4.5% = 13,500
Maximum monthly NP contribution	4,490,000*4.5%= 202,050	4,680,000* 4.5% = 210,600

(Note) 4.5% each for employer and employee

● **Annual settlement of Social Insurance Premiums except for National Pension in April 2018**

Employers are required to perform annual settlement of social insurance premiums in March of the following year after each calendar year end for the national health insurance, employment insurance and industrial accident compensation insurance, and reflect any overpayment (underpayment) during the year resulting from the annual settlement in April payroll accordingly.

For national health insurance, if the additional insurance resulting from year-end settlement is greater than the April insurance amount, employees may choose to pay by installment over 2 - 10 months starting from April 2018.

For your future reference, the statutory social insurance rates in effect for year 2018 can be summarized as below:

Social Insurances:	Employee portion	Employer portion	Total	Remark
National Pension (NP)	4.5%	4.5%	9.0%	Won 210,600 of monthly contribution ceiling each
National Health Insurance (NHI)				
a. National Health Insurance(NHI)	3.12%	3.12%	6.24%	Won 2,436,720 of monthly contribution ceiling each Assessed at 7.38% of NHI premium above
b. Long-term Care Insurance for the Elderly (NHI-LTCI)	7.38%	7.38%	14.76%	
Employment Insurance (EI)	0.65%	0.9% ~1.5%	1.55% ~2.15%	Vary depending on the number of employees
Industrial Accident Compensation Insurance (IACI)	NIL	0.76% ~32.36%	0.76% ~32.36%	Vary depending on type of business

Please contact any of the following individuals with any inquiries or comments.

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